

Jo Ann Goddard Riley
Director
Federal Regulatory Relations

1275 Pennsylvania Avenue, N.W., Suite 400
Washington, D.C. 20004
(202) 383-6429

PACIFIC  TELESIS
Group - Washington

June 1, 1992

ORIGINAL
FILE

RECEIVED

JUN - 1 1992

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

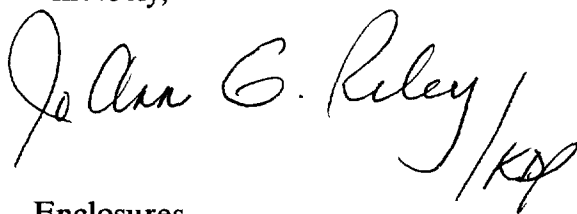
Dear Ms. Searcy:

Re: CC Docket No. 92-101

On behalf of **Pacific Bell** and **Nevada Bell**, please find enclosed an original and six copies of their "*Direct Case*" in the above proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,

 /KQ

Enclosures

No. of Copies rec'd 0-1 3
List A B C D E

RECEIVED

JUN - 1 1992

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)	
)	
Treatment of Local Exchange)	CC Docket No. 92-101
Carrier Tariffs Implementing)	
Statement of Financial Accounting)	
Standards, "Employers Accounting)	
for Postretirement Benefits Other)	
Than Pensions")	
)	
Bell Atlantic Tariff F.C.C. No. 1)	Transmittal No. 497
)	
US West Communications, Inc. Tariff)	Transmittal No. 246
F.C.C. Nos. 1 and 4)	
)	
Pacific Bell Tariff F.C.C. No. 128)	Transmittal No. 1579
)	
)	

DIRECT CASE OF PACIFIC BELL AND NEVADA BELL

JAMES P. TUTHILL
JOHN W. BOGY

140 New Montgomery St., Rm. 1530-A
San Francisco, California 94105
(415) 542-7634

JAMES L. WURTZ

1275 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202) 383-6472

Their Attorneys

Date: June 1, 1992

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	iv
I. IMPLEMENTATION OF SFAS-106 RESULTS IN A RECOVERABLE COST CHANGE UNDER THE PRICE CAP RULES	2
1. SFAS-106 is An Exogenous Cost Change	2
2. Reflecting SFAS-106 Costs in Rates is Necessary to Further the Commission's Policies	5
II. RESPONSE TO PARAGRAPH 11	6
1. Date of SFAS-106 Implementation	7
2. SFAS-106 Costs by Year	7
3. Allocation of Costs to Baskets	8
4. Treatment of OPEB Costs in Reports to SEC	9
5. Studies	9
III. RESPONSE TO PARAGRAPH 13	10
1. SFAS-106-Type Benefits Being Provided	10
2. 1991-92 Pay-As-You-Go Expenses	11
3. VEBA Trusts	11
4. Recognition of Postretirement Benefit Costs Before Adoption of Price Caps	12
5. Type and Level of SFAS-106-Type Expense in Current Rates	13
6. Type and Level of SFAS-106-Type Expense in Starting Rates for Price Caps	13

IV.	ACTUARIAL ASSUMPTIONS AND METHODOLOGY	13
	A. Assumptions	14
	1. Time Value of Money	14
	2. Participation Rates	15
	3. Retirement Age	15
	4. Per Capita Claims Cost by Age	15
	5. Health Care Cost Trend Rates	15
	6. Medicare Reimbursement Rates	17
	7. Salary Progression	17
	8. Probability of Payment	17
	9. Capping or Elimination of Benefits	18
	10. National Health Insurance	18
	B. Methodology	19
	1. Determination of Attribution Method	19
	2. Determination of the Measurement Period	19
	3. Method of Calculating Prior Service Cost and Current Service Cost	20
	4. Employee Benefit Vesting Requirements	21
	5. Recognition of Gains and Losses	21
	6. Other Components in the Accounting Statement	22
	7. Bargained VEBA Contributions	24
	8. Medical Claims Rate Data	24
V.	MEDICAL AND WAGE INFLATION	24
VI.	CONCLUSION	25

APPENDICES

1. NERA Study
2. SFAS-106 Costs by Year
 - A. Pacific Bell
 - B. Nevada Bell
3. SFAS-106 Cost Allocations to Price Caps Basket
 - A. Pacific Bell
 - B. Nevada Bell
4. Excerpts from Pacific Bell's 10K Report
5. SFAS-106-Type Costs - Current Accounting
 - A. Pacific Bell
 - B. Nevada Bell
6. SFAS-106-Type Costs in Price Caps Rates
 - A. Pacific Bell
 - B. Nevada Bell
7. Actuarial Report - Pacific Telesis Group
Postretirement Benefits
8. Testimony of John M. Bertko

SUMMARY

Price cap LECs should be permitted to increase their price cap index levels as a result of their implementation of the Statement of Financial Accounting Standards 106 (SFAS-106). SFAS-106 meets all of the criteria for an exogenous event stated in the Commission's rules and orders. A mandatory change in GAAP, it is beyond the control of the carriers. It is also, except to a small degree (for which Pacific Bell accounted in its tariff), not reflected in the GNP-PI. Furthermore, if SFAS-106 is not reflected in carriers' rates, it would undermine the principles of price cap regulation, which is intended to foster efficiency and increase productivity. This direct case fully demonstrates that the Pacific Companies' estimates of the cost of SFAS-106 are sound. Pacific Bell's OPEB tariff should be permitted to take effect as filed. All price cap LECs should be permitted to file similar tariffs.

RECEIVED

JUN - 1 1992

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)	
)	
Treatment of Local Exchange)	CC Docket No. 92-101
Carrier Tariffs Implementing)	
Statement of Financial Accounting)	
Standards, "Employers Accounting)	
for Postretirement Benefits Other)	
Than Pensions")	
)	
Bell Atlantic Tariff F.C.C. No. 1)	Transmittal No. 497
)	
US West Communications, Inc. Tariff)	Transmittal No. 246
F.C.C. Nos. 1 and 4)	
)	
Pacific Bell Tariff F.C.C. No. 128)	Transmittal No. 1579
)	
)	

DIRECT CASE OF PACIFIC BELL AND NEVADA BELL

Pursuant to the Order of Investigation and Suspension released by the Common Carrier Bureau (the "Bureau") on April 30, 1992 ("Investigation Order"),¹ Pacific Bell and Nevada Bell (the "Pacific Companies") submit this Direct Case showing that the change in accounting necessary for implementation of Statement of Financial Accounting Standards No. 106 (SFAS-106) should be recognized as an exogenous cost

1

Treatment of Local Exchange Carrier Tariffs Implementing Statement of Financial Accounting Standards, "Employers Accounting for Postretirement Benefits Other Than Pensions", Bell Atlantic Tariff F.C.C. No. 1, US West Communications, Inc. Tariff F.C.C. Nos. 1 and 4, Pacific Bell Tariff F.C.C. No. 128, CC Docket No. 92-101, Order of Investigation and Suspension, DA 92-540, released April 30, 1992.

change under the Commission's price cap rules. In addition, the revisions in Pacific Bell's Transmittal No. 1579, filed April 16, 1992, have been sufficiently justified and should be permitted to take effect as filed.

I. IMPLEMENTATION OF SFAS-106 RESULTS IN A RECOVERABLE COST CHANGE UNDER THE PRICE CAP RULES.

1. SFAS-106 is An Exogenous Cost Change

In the Investigation Order, the Bureau asks LECs to demonstrate that implementing SFAS-106 results in an exogenous cost change under the Commission's price cap rules.²

The answer undoubtedly is yes. Section 32.16(a) of the Commission's Rules requires that a "company's records and accounts shall be adjusted to apply new accounting standards prescribed by the Financial Accounting Standards Board (FASB) ... in a manner consistent with generally accepted accounting principles."³ SFAS-106 mandates that the costs of postretirement benefits other than pensions (OPEB) be recognized for financial reporting purposes on an accrual, rather than a cash basis.

On December 26, 1991, the Commission authorized all carriers to adopt SFAS-106 for accounting purposes, using the amortization method allowed in SFAS-106. SFAS-106 must be

² Investigation Order, para. 10.

³ 47 C.F.R. §32.16(a).

adopted by all Securities and Exchange Commission (SEC) registrants for financial reporting purposes not later than January 1, 1993.

According to the Commission, "[e]xogenous costs are in general those costs that are triggered by administrative, legislative or judicial action beyond the control of the carriers."⁴ Because FASB-mandated accounting changes are beyond the control of individual LECs, the cost of SFAS-106 should be recoverable under price cap regulation to the extent it is not already reflected in the GNP-PI.⁵ As the Commission has said, "these are costs that should result in an adjustment to the [price] cap in order to ensure that the price cap formula does not lead to unreasonably high or unreasonably low rates."⁶

The National Economic Research Associates (NERA) Study (attached as Appendix 1) was commissioned by Pacific Bell to determine the following:

First, adoption of SFAS-106 leads to a change in accounting costs. In what sense does this change represent a change in costs that should be reflected in a regulated firm's price cap?

⁴ Policy and Rules Concerning Rates for Dominant Carriers,
5 FCC Rcd 6786, 6807 (1990).

⁵ Policy and Rules Concerning Rates for Dominant Carriers,
6 FCC Rcd 2637, 2665 (1991).

⁶ 5 FCC Rcd at 6807.

Second, is this change in costs beyond the control of a regulated firm so that its efficiency incentives would not be diminished if the cost change were passed through in prices?

Finally, what portion of this change in costs will be automatically recovered through an increase in the rate of inflation and what portion remains to be recovered through an exogenous cost change to the firm's price cap?

Among its major findings, NERA conclusively determined that:

First, adoption of accrual accounting for postretirement benefits represents an accounting recognition of proper economic costs. Prices under price caps were initially set using cash accounting for postretirement benefits. Thus, a change in the price cap is necessary so that prices will reflect the economic cost of service.

Second, adoption of SFAS-106 accounting by the FASB and by the FCC is certainly beyond the control of the regulated firm. Moreover, a one-time adjustment to its prices to reflect the economic costs of postretirement benefits does not reduce the firm's incentive to control expenditures on those benefits.

Third, because prices in unregulated markets already reflect the economic costs of postretirement benefits, adoption of SFAS-106 will not cause them to change. Hence, the effect of SFAS-106 on output prices is confined to the regulated sector, and the estimated effect on the rate of growth of GNP-PI is less than 0.12% per year.

2. Reflecting SFAS-106 Costs in Rates is Necessary to Further the Commission's Policies

Carriers must be allowed to reflect the incremental costs of SFAS-106 in rates or the Commission's policies will be undermined.

If SFAS-106 costs are not recognized for ratemaking purposes, productivity and efficiency will be discouraged because rates will not be based on economic costs. Price cap regulation was intended to "reward companies that become more productive and efficient":

Opportunities presented by incentive regulation for enhancing efficiency in the LEC industry include the opportunity to provide better incentives for innovation. Innovation is not a term we define narrowly ... to mean technological breakthroughs that lead to new services or offerings. Our definition of innovation is far broader. Our definition incorporates innovation in management systems, administration, and in the magnitude of what economists term "inputs" that are used to produce a firm's "output." In our view, innovation in how a company produces its output is one of the chief ways a company becomes more productive and efficient.⁷

For price cap regulation to reward efficiency and productivity, rates must be based on economic costs (or inputs). SFAS-106 relies on a fundamental premise of GAAP, namely, that accrual accounting provides more relevant and useful information

than does cash basis accounting.⁸ The Pacific Companies' initial price cap rates were based on cash accounting for OPEB. Cash accounting, however, is seriously flawed for ratemaking purposes because it does not properly match cost recovery to the period in which services are provided. If the incurred costs of OPEB are not reflected in the price of services today, they will either have to be recovered from future generations of ratepayers to whom they are not really attributable, or they will have to be absorbed by the Pacific Companies' shareholders. In either case, the economic costs of OPEB will not be recovered from the cost-causers. Efficiency and productivity will suffer because rates will bear an arbitrary relationship, at best, to costs.

II. RESPONSE TO PARAGRAPH 11.

In paragraph 11 of the Investigation Order, the Bureau requested that each LEC provide, as part of its direct case, the following information: (1) the date the LEC has implemented or

⁸ The FASB determined that OPEB costs are a form of deferred compensation. Recognizing postretirement benefits are earned by employees for services rendered, the FASB's analysis simply recognizes an exchange transaction, a promise to provide future benefits in exchange for services rendered today. The OPEB obligation, like pensions and other forms of deferred compensation, arises and should be recognized over the service period (working lives) of the employees. Accrual accounting for OPEB is unquestionably more appropriate for determining economic costs than is cash basis accounting. Accrual accounting properly allocates OPEB costs to the periods in which they are earned. This is appropriate for both financial reporting and ratemaking.

intends to implement SFAS-106; (2) the costs by year; (3) the allocation of costs to baskets by year; (4) the treatment of these costs in reports to the SEC and to shareholders, including specific citations to, or excerpted materials from, such reports; and (5) all studies on which the LEC seeks to rely in its demonstration that these accounting changes should be considered exogenous cost changes. The Pacific Companies respond as follows:

1. Date of SFAS-106 Implementation

The Pacific Companies currently intend to implement SFAS-106 on January 1, 1993.

2. SFAS-106 Costs by Year

The workpapers attached as Appendix 2 contain this information for the years 1993 through 1996.⁹ This period is in accordance with the Bureau's RAO Letter 20, released April 24, 1992.

9

For Pacific Bell the 1993 annual incremental OPEB costs are \$27M rather than for the period January 1, 1993 through June 30, 1993 as footnote 10 of the Investigation Order states. In its tariff filing, Pacific Bell proposed rate increases of \$20M, which translates to only a little more than 1% above the current level (\$20M/\$1.4B). Therefore, there is little reason to be concerned about "rate shock".

3. Allocation of Costs to Baskets

For Pacific Bell, the allocation methodology was explained on p. 10 of the Description and Justification in Transmittal No. 1579. Both Pacific Bell's and Nevada Bell's allocations are contained in Appendix 3.

The LEC price cap rules require that exogenous cost changes be apportioned on a cost-causative basis between price cap services as a group, and excluded services as a group. Exogenous cost changes attributed to price cap services are to be further apportioned on a cost-causative basis among the price cap baskets.¹⁰ The OPEB cost allocations in Pacific Bell's tariff cost support were based on the distribution of "Big Three Expenses" described in Parts 36.392(c) and 69.2(f) of the Commission's rules, because the related accounts contain the majority of wage-related costs and OPEB costs are wage-related. The "Big Three Expenses" used by Pacific Bell to allocate these costs were the estimated 1991 base year amounts which were adjusted for the exogenous costs described in Pacific Bell's 1992 Annual Access Filing. Nevada Bell will use a similar technique at the time it submits its tariff filing but plans to develop its basket allocations by applying its TelebaseTM allocation model.

¹⁰

47 C.F.R. §61.45(d)(4).

4. Treatment of OPEB Costs in Reports to SEC

The Pacific Companies have not yet adopted SFAS-106. The treatment of these costs in reports to the SEC and shareholders is, therefore, limited to disclosures regarding the expected impact that SFAS-106 will have on future costs and earnings. Appendix 4 contains excerpts from Pacific Bell's Form 10K Report for the fiscal year ending December 31, 1991. Nevada Bell has not made any disclosures and does not file a Form 10K.

5. Studies

As described in Transmittal No. 1579, Pacific Bell relied on the NERA study to develop the appropriate portion of incremental OPEB costs to be included in its proposed PCIs. The NERA study demonstrates that SFAS-106 will change the GNP-PI by no more than 0.12%, which demonstrates that all but a small portion of SFAS-106 costs should be recoverable by all price cap LECs. It also confirms that without an exogenous adjustment, Pacific Bell would recover only 6.26% of its SFAS-106 costs through the price caps mechanism.¹¹ Pacific Bell's tariff filing requested recovery of only 93.74% (100%-6.26%) of its 1993 incremental OPEB costs to ensure no double recovery.¹² Similarly, Nevada Bell would request recovery of approximately

¹¹ NERA Study, p. 32.

¹² See Transmittal No. 1579, Workpaper I, p. 1 of 3.

95.2% of its 1993 OPEB costs when it makes its tariff filing to avoid double recovery.

III. RESPONSE TO PARAGRAPH 13.

The Bureau also requests that the LECs describe: (1) each of the type of benefits being provided that is covered by the SFAS-106 accounting rules; (2) for 1991 and 1992, the pay-as-you-go level of expense associated with these benefits; (3) any Voluntary Employee Benefit Association (VEBA) trusts or other funding mechanisms for these expenses which were established prior to the adoption of SFAS-106; (4) the forms of postretirement benefit accrual accounting, if any, that were adopted within the regulated financial reporting [sic] before the adoption of price cap regulation; (5) the type and level of SFAS-106-type expenses in current rates; and (6) what type and level of SFAS-106-type expense was reflected in the starting rates for price caps.¹³

1. SFAS-106-Type Benefits Being Provided

The Pacific Companies offer the following postretirement benefits that are subject to SFAS-106: medical benefits, dental benefits, and group life insurance.

¹³

Investigation Order, para. 13.

2. 1991-92 Pay-As-You-Go Expenses

The pay-as-you-go expenses associated with these postretirement benefits for 1991 and 1992 are shown in Appendix 5.

As noted below (section 4), the Pacific Companies do not account for OPEB on a pure pay-as-you-go basis. Amounts funded in the bargained VEBA trust (see section 3 below) are charged to expense and capital. Amounts funded in the group life insurance VEBA are expensed. Retiree medical and dental claims payments, not paid out of a trust, are expensed.

3. VEBA Trusts

Pacific Bell and Nevada Bell established a bargained VEBA trust in 1989 to fund postretirement medical and dental costs for employees covered by collective bargaining agreements. Group life insurance benefits (for both collectively bargained and non-collectively bargained employees) are also currently being funded in a VEBA trust.

The Pacific Telesis Group Post-Retirement Health Care Trust ("Trust") was established December 29, 1989 as a collectively bargained VEBA under Section 501(c)(9) of the Internal Revenue. As such, the funds invested in the Trust are held for the exclusive purpose of providing postretirement benefits under health care plans that provide medical and dental benefits. The Trust provides that, except as permitted by law and the return of contributions made to the Trust by reason of a

mistake of fact, at no time shall any part of the Trust be used for, or diverted to, any purposes other than the provision of postretirement medical and dental benefits and for defraying the reasonable expenses of the Trust.

4. Recognition of Postretirement Benefit Costs Before Adoption of Price Caps

The Pacific Companies recognized as OPEB costs the contributions made to their VEBA trust. In addition they recognized pay-as-you-go costs for retiree medical and dental claims payments which were not paid out of a trust.

Amounts funded in the bargained VEBA trust for active employees were flowed through the benefit matrix and were cleared based on how employee salaries were charged to final accounts (capital and expense). Approximately 92% of salary costs were charged to various expense accounts and the remaining 8% of these costs were capitalized. Amounts funded in the bargained VEBA trust for retired employees were charged to general expense (Account 6728.143). Medical and dental OPEB costs for non-collectively bargained employees were accounted for on a pay-as-you-go basis, that is, claims paid by the company were charged to general expense (Account 6728.143). Group life insurance costs for retired employees were funded in a separate VEBA trust and charged to general expense.

5. Type and Level of SFAS-106-Type Expense in Current Rates

The Pacific Companies have not filed for any additional exogenous costs associated with SFAS-106 subsequent to the institution of price cap regulation. The current rates, therefore, reflect only those costs authorized in their last rate of return filings.

6. Type and Level of SFAS-106-Type Expense in Starting Rates for Price Caps

This is shown in Appendix 6.

IV. ACTUARIAL ASSUMPTIONS AND METHODOLOGY.

The Bureau also requests descriptions and justifications of the actuarial assumptions, and the assumptions unique to postretirement health care benefits, made in computing the SFAS-106 expenses, including, but not limited to: the time value of money; participation rates; retirement age; per capita claims cost by age; health care cost trend rates; Medicare reimbursement rates; salary progression (if a company has a pay-related plan); and the probability of payment (turnover, dependency status, mortality, etc.); and what assumptions, if any, were made about other future events such as capping or elimination of benefits, or the possible advent of national health insurance.¹⁴

¹⁴ Investigation Order, para. 14.

Pacific Bell and Nevada Bell relied on the actuarial methodology and assumptions below and in Appendix 7.

A. Assumptions

1. Time Value of Money

1. Interest Rates to discount future benefit payments and VEBA contributions:

- o Bargained VEBA: 8.5% return on the Trust Fund.¹⁵
- o Non-bargained VEBA: 5% return on the Trust Fund.¹⁶
- o Group Term Life VEBA: 8.5% return on the Trust Fund.

2. Discount Rate for calculating the OPEB accrual/liability:

15 The difference in return rates on the bargained and non-bargained VEBAS is a result of differing tax treatment.

16 The difference in return rates on the bargained and non-bargained VEBAS is a result of differing tax treatment.

- o 8.5% which is consistent with the return on high quality investments as required by SFAS-106.

2. Participation Rates

See Appendix 7, pp. 13-14.

3. Retirement Age

See Appendix 7, pp. 11-12.

4. Per Capita Claims Cost by Age

See Appendix 7, p. 10.

5. Health Care Cost Trend Rates

Health care cost trend rate assumptions for the medical and dental bargained VEBA contributions and OPEB accrual/liability are detailed below:

- a. Assumptions applicable to both medical and dental trend rates:

SFAS-106 requires the use of "explicit assumptions, each of which individually represents the best estimate of a particular future event." (Id., §29, p. 11). The health

care cost trend rate is intended to represent an explicit assumption regarding the annual rate of change in the average cost of health care benefits due to factors other than changes in the number and age mix of participants. This assumption is used to provide projections of benefit costs each year into the future and is developed by considering past and current employer-specific health care trend rates.

- b. Assumptions applicable to the medical trend rate only:

<u>Year</u>	<u>In-Network</u>	<u>Out-of-Network</u>
1990-1993	12.00%	14.00%
1994	11.50%	13.00%
1995	8.5%	13.00%
1996	8.00%	10.00%
1997	7.5%	9.00%
1998	7.00%	8.00%
1999	6.75%	7.50%
2000	6.50%	7.00%
2001	6.25%	6.50%
2002+	6.00%	6.00%

- o Used a long-term inflation rate of 4.5% and assumed a 1.5% real rate of growth in Gross National Product ("GNP"). Therefore, the ultimate nominal rate of growth in GNP is 6%.

- o Assumed that on a long-term basis, total medical trend would equal the rate of growth in GNP.
- o Initial medical trend rate of 14% reflects a 9.5 point spread between the total medical trend rate and general inflation rate (14%-4.5%) which is indicative of recent history. This gap will gradually narrow until year 2002 when total medical trend rate equals the ultimate nominal rate of 6% GNP growth.
- c. Assumptions applicable to the dental trend rate: 4% compounded annually.

6. Medicare Reimbursement Rates

These are reflected in per capita claims cost and health care cost trend rate assumptions.

7. Salary Progression

See Appendix 7, p. 25. This salary progression applies to the group life benefit only.

8. Probability of Payment

See Appendix 7, pp. 11-13.

9. Capping or Elimination of Benefits

Beginning with contributions due on or after January 1, 1993, the annual amount that Pacific Bell will contribute towards the cost of retiree medical benefits for all employees who retire on or after January 1, 1991, is limited to the following amounts:

	<u>Under Age 65</u>	<u>Over Age 65</u>
Retiree	\$1,859	\$877
Retiree with 1 dependent	\$3,686	\$1,737
Retiree with 2 or more dependents	\$5,144	\$2,423

In addition, reimbursement of the Medicare Part B premium is limited to \$36.00 per month per person. Any required deductibles or co-payments would be in addition to the contributions that may be required under the limitations described above.

For collectively bargained employees, any change in the Company's contribution policy would require negotiation with the Unions in the collective bargaining process.

See also Appendix 7, p. 20.

10. National Health Insurance

The possible advent of national health insurance is implicitly reflected in the health care cost trend rate assumptions.

B. Methodology

1. Determination of Attribution Method

The attribution method assigns benefits and/or costs of benefits to individual years of employee service. SFAS-106 adopted a benefit/year-of-service approach whereby an equal amount of the expected postretirement benefit obligation is assigned to each year of service during the attribution period. The attribution period is measured from the date of hire to the date of full benefit eligibility.¹⁷ Upon adoption of SFAS-106, Pacific Bell and Nevada Bell intend to use a benefit/year-of-service approach since their plan benefit is not service related.

2. Determination of the Measurement Period

SFAS-106 requires the measurement of benefit obligations and plan assets as of the date of the financial statements or, if used consistently from year to year, as of a date not more than 3 months prior to the date of the financial statements. However, much of the information can be prepared as of an earlier date and projected forward to account for subsequent events.¹⁸ Pacific Bell and Nevada Bell currently intend to measure the

¹⁷ SFAS-106, §43, p. 16 and §200-218, pp. 66-71.

¹⁸ Id., §72, p. 24.